

RESOLUTION NO. 91-175

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A RESOLUTION ADOPTING THE  
STATEMENT OF INVESTMENT POLICY

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WHEREAS, Legislation enacted by the Legislature of the State of California requires the adopting by local agencies (cities, counties, special districts) of an annual investment policy; and

WHEREAS, the City Council of the City of Lodi wishes to implement a program of internal controls by which the City's investment program shall be administered.

NOW, THEREFORE, BE IT RESOLVED that the City Council of the City of Lodi hereby adopts an investment policy and internal control guidelines as set forth herein.

Date: September 18, 1991

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I hereby certify that Resolution No. 91-175 was passed and adopted by the City Council of the City of Lodi in a regular meeting held September 18, 1991 by the following vote:

Ayes: Council Members - Pennino, Pinkerton, Sieglock, Snider and  
Hinchman (Mayor)

Noes: Council Members - None

Absent: Council Members - None

Attest:

  
Alice M. Reimche  
City Clerk

91-175

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**CITY OF LODI**  
**INVESTMENT POLICY**  
**AND**  
**INTERNAL CONTROL GUIDELINES**

September 18, 1991

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## **CITY OF LODI**

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### **INVESTMENT POLICY**

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#### **SECTION I INVESTMENT POLICIES**

**1. PURPOSE**

The purpose of this document is to provide the policies and procedures for the prudent and systematic investment of the City's funds and to formalize investment related activities which include cash management, the expeditious collection of revenue, the control of disbursements, cost-effective banking relations, and a short-term borrowing program which coordinates working capital requirements and investment opportunity.

**2. SCOPE**

These policies and procedures cover all funds and investment activities of the City of Lodi.

**3. OBJECTIVES**

The funds of the City will be maintained and/or invested in accordance of the following objectives:

**o SAFETY**

It is the primary duty and responsibility of the Treasurer to protect, preserve and maintain cash and investments placed in his/her trust on behalf of the citizens of Lodi.

**o LIQUIDITY**

An adequate percentage of investments should be maintained in liquid short-term securities which can be converted to cash if necessary to meet disbursement requirements. Since all cash requirements cannot be anticipated, investments in securities with active secondary or resale markets will only be made. The emphasis will be on marketable securities with low sensitivity to market risk.

**o YIELD**

Yield will be a consideration only after the basic requirements of safety and liquidity have been met.

**o MARKET-AVERAGE RATE OF RETURN**

The investment portfolio will be designed to attain a market-average rate of return that protects the City's funds from the effects of inflation and the risks associated with higher returns. *The market-average rate of return targeted to achieve this objective ranges between the annual rate for U.S. Treasury Notes and the annual rate of the Local Agency Investment Fund (LAIF) managed by the Treasurer, State of California.*

o **DIVERSIFICATION**

The investment portfolio will be diversified to avoid incurring unreasonable and avoidable risks regarding security types or individual financial institutions.

o **PRUDENCE**

The City will adhere to the guidance provided by the "prudent man rule" which obligates the Treasurer and other fiduciaries to insure that:

"investment shall be made with the exercise of that degree of judgement and care, under circumstances then prevailing, which persons of prudence, discretion and intelligence exercise in the management of their own affairs, not for the speculation but for investment considering the probable safety of their capital as well as the probable income to be derived."

o **PUBLIC TRUST**

All participants in the investment process shall act as custodians of the public trust. Investment officials shall recognize that the investment portfolio is subject to public review and evaluation. The overall program shall be designed and managed with a degree of professionalism that is worthy of the public trust. In a diversified portfolio it must be recognized that occasional measured losses are inevitable, and must be considered within the context of the overall portfolio's investment return, provided that adequate diversification has been implemented.

4. **DELEGATION OF AUTHORITY**

The City Treasurer is responsible for the investment and management of the City's funds in accordance with the policies and procedures established herein.

5. **REPORTING**

The Treasurer will submit a monthly investment report to the City Council, in accordance with Government Code Section 53646, to disclose the following information:

1. Type of investment
2. Institution
3. Date of maturity
4. Amount of deposit or cost of the security
5. Current market value of securities with maturity in excess of 12 months
6. Rate of interest
7. Ownership risk
8. Statement relating the report to the Statement of Investment Policy
9. Statement that there are sufficient funds to meet the next 30 days' obligations.

## 6. OWNERSHIP RISK

Securities owned by the City will be rated in accordance with the Governmental Accounting Standards Board Statement 3 (GASB 3) which discloses risk associated with the ownership of various types of investments. The focal point is establishing a separation of responsibility between the entity purchasing the investment and the entity holding the investment.

The carrying amount and market value of all types of the City's investments should be disclosed in total and for each type of investment. The disclosure of the carrying amounts by type of investment will be classified into these categories of risk if applicable:

1. Insured or registered, or securities held by the City or its agent in the City's name.
2. Uninsured and unregistered, with the securities held by the counterparty's trust department or agent in the City's name.
3. Uninsured and unregistered, with securities held by the counterparty, or by its trust department or agent but not the City's name.

Interpretation of GASB 3 indicates that the securities do not literally have to be held in the name of the City, but the City must be able to show evidence of ownership. This "chain of custody" can be evidenced through safekeeping or custodial receipts and/or statements.

The rating categories are determined by where the securities are held, how they were transferred and who the counterparty to each transaction was.

GASB 3 exempts mutual funds and LAIF investments from the mandatory categorization. Moreover, deposits that are insured or collateralized may be exempt from mandatory risk categorization, if collateral is held by the City or the third party custodian in the City's name.

## 7. INVESTMENT INSTRUMENTS

Security purchases and holdings should be maintained within statutory limits imposed by Government Code. The current limits are:

PERMITTED INVESTMENTS/DEPOSITS	PERCENTAGES	MAXIMUM MATURITY
Securities of the U.S. Government	Unlimited	5 years*
Certificates of Deposit	Unlimited	5 years*
Negotiable Certificates of Deposit	30%	5 years*
Bankers Acceptances	40%	270 days
Commercial Paper	30%	180 days
LAIF	10MM**	n/a
Passbook deposits		n/a
Repurchase agreement		1 year

Reverse Repurchase agreement		1 year ***
Mutual Funds	15%	n/a
Medium Term Notes	30%	5 years*

- \* Maximum term unless expressly authorized by the City Council
- \*\* Limit set by LAIF Governing Board, not Government Code
- \*\*\* City Council approval is required

## 8. BANKS AND SECURITY DEALERS

The Treasurer will consider the credit worthiness of institutions in selecting financial institutions for the deposit or investment of City funds. These institutions will be monitored to ensure their continued stability and credit worthiness.

Investment transactions will only be made with pre-approved financial institutions. Approved financial institutions will be provided a copy of the City's investment policy. This is to assure that the dealers/brokers are aware of the suitability of investment instruments they are trying to sell to the City. Receipt of the policy, including confirmation that it has been reviewed by persons handling the City's account should be acknowledged in writing prior to commencing trade.

*The Treasurer may purchase Certificates of Deposit with City funds in banks and savings and loan institutions located in the City of Lodi at below market rates at his or her discretion to promote investment in the City of Lodi. These investments are limited to those financial institutions with established policies to invest the funds of local depositors into the City to promote economic stability and growth under the Community Reinvestment Act. Certificates of Deposit purchased under the provisions of this policy will normally be limited to amounts insured by the Federal Deposit Insurance Act when below market.*

## 9. RISK TOLERANCE

The City recognizes that investment risk can result from insurer defaults, market price changes or various technical complications leading to temporary illiquidity. Portfolio diversification is employed as a way to control risk. The City Treasurer is expected to display prudence in the selection of securities, as a way to minimize default risk. No individual investment transaction will be undertaken which jeopardizes the total capital position of the overall portfolio. In addition to these general policy considerations, the following specific policies will be strictly observed:

- a. **Payment**  
All transactions will be executed on a delivery versus payment basis which should be done by the City's safekeeping agent.
- b. **Bid**  
A competitive bid process, when practical, will be used to place all investment purchases.

c. Wire Transfers

All transfers will be approved by the Treasurer or Deputy. The City's bank will verify each transaction with a predetermined City employee other than the individual sending the wire transfer.

Pre-formatted wire transfers will be used to restrict the transfer of funds with pre-authorized accounts only.

d. Confirmation

Receipts for confirmation of a purchase of authorized securities should include the following information: Trade date, par value, maturity, rate, price, yield, settlement date, description of securities purchased, City's name, net amount due, third-party custodial information. Confirmations of all investment transactions are to be received by the Treasurer within three business days.

e. Collateral

Amount of securities placed with an agent of depository shall at all times be maintained as specified in California Government Code Section 53652 and pursuant to Sections 53656 and 53658.

The purchase of Certificates of Deposit requires the depository to secure public funds. If the collateral is government securities, 110% of market value to the face amount of the deposit is required. Promissory notes secured by first mortgages and first trust deeds used as collateral require 150% of market value to the face amount of the deposit. An irrevocable letter of credit issued by the Federal Home Loan Bank of San Francisco requires 105% of market value to the face amount of the public deposit.

Collateral is also identified as the underlying marketable securities provided by a broker/dealer under a repurchase agreement transaction or the marketable securities provided by the City under a reverse repurchase agreement.

Marketable securities which are provided as collateral under a repurchase agreement with a broker/dealer will be held by the City's safekeeping agent at a market value greater than 100%. Request for collateral substitutions and releases will be subject to the approval of the Treasurer.

The City may waive collateral requirements for deposits which are fully insured up to \$100,000 by the Federal Deposit Insurance Corporation (FDIC).

f. Pooled Cash

The City will consolidate into one bank account and invest on a pooled concept basis. Interest earning will be allocated according to fund cash and investment balances on a semi-annual basis.



g. **Cash Forecast**

The cash flow will be analyzed and compared with the receipt of revenues and maturity of investments scheduled so that adequate cash will be available to meet disbursement requirements as well as developing a basis for the investment strategy.

**10. SAFEKEEPING AND CUSTODY**

Securities purchased from brokers/dealers will be in the City's safekeeping custodian. The custodian will hold these securities in a manner that establishes the City's right of ownership.

All securities owned by the City will be held by a third party except the collateral for time deposits in banks and savings and loans. Collateral for time deposits in savings and loans is held by the Federal Home Loan Bank or an approved Agent of Depository. The collateral for time deposits in banks should be held in the City's name in the bank's Trust Department, or alternately, in the Federal Reserve Bank.

**11. STATEMENT OF INVESTMENT POLICY**

The Investment Policy will be submitted to the City Council annually for review and adoption by resolution.

**12. INVESTMENT STRATEGY**

The following strategy will be used in the investment of City funds. This strategy will be used to manage financial resources in the most advantageous manner possible.

a. **Economic Forecasts**

The Treasurer will gather economic forecasts monthly from economists and financial experts through bankers and brokers to assist in the formulation of an investment strategy.

b. **Implementation of the Investment Strategy**

Investment transactions which conform with anticipated interest rate trends and the current investment plan.

c. **Rapport**

The City Treasurer will maintain a close working relationship with the City staff. The objective is to pinpoint the timing of large disbursements which will hit the City checking account. Such expenditures must be anticipated, estimated as to dollar amount, and communicated to insure that the portfolio is sufficiently liquid to meet current obligations with little disruption to the scheduled maturities.

## **SECTION II INTERNAL CONTROL**

### **1. GENERAL**

These controls are not intended to be comprehensive in every situation. Internal control is dependent on a variety of factors which may be unique to each individual situation. However, these controls will help to assure that an adequate system of internal control is in place and is documented.

### **2. OBJECTIVES OF INTERNAL CONTROL**

Internal control is the plan of organization and all related systems established to ensure, as far as practical:

- o the orderly and efficient conduct of business, including adherence to management policies
- o the safeguarding of assets
- o the prevention or detection of errors and fraud
- o the accuracy and completeness of the accounting records
- o the timely preparation of reliable financial information

### **3. LIMITATIONS OF INTERNAL CONTROL**

No internal control system, however elaborate, can by itself guarantee the achievement of management's objectives. Internal control, because of its inherent limitations, can only provide reasonable assurance that the objectives are met.

### **4. ELEMENTS OF INTERNAL CONTROL**

The elements of an internal control system are the means by which the City can satisfy the objectives of internal control. These elements are:

- o **Organization**  
Specific responsibilities for the performance of duties are assigned and lines of authority and reporting are clearly identified and understood.
- o **Personnel**  
Personnel should have capabilities commensurate with their responsibilities. Personnel selection and proper training together with the quality and quantity of supervision are vital.

- o Segregation of functions  
Segregation of incompatible functions reduces the risk that an individual is in a position to perpetrate and conceal errors or act fraudulently in the normal course of duty. If two parts of a transaction are handled by different individuals in different departments, the functions that should be considered when evaluating segregation of functions or authorization, execution, recording, custody of assets and performing reconciliations.
- o Authorization  
All transactions should be authorized by an appropriate responsible individual. The responsibilities and limits of authorization should be clearly delineated. The individual or group authorizing a specific transaction should be in a position commensurate with the nature and significance of the transactions. Delegation of authority to authorize transactions should be handled very carefully.
- o Controls over an accounting system  
Controls over the accounting system should include the procedures, other manual and EDP, carried out independently to ascertain that recorded transactions are complete, valid, authorized and properly recorded.
- o Safeguarding of assets and records  
Controls should be in place to prevent and detect loss, theft, or deterioration of assets. In addition, safeguards are necessary to prevent the loss or destruction of records and documentation. Safeguarding of assets involves custodial controls, which are designed to prevent or detect unauthorized access to or use of assets and records, and accountability controls, which compare accounting records to assets to determine whether recorded assets exist and are properly recorded, in accordance with generally accepted accounting principles (GAAP).
- o Management  
These are the controls exercised by management including day-to-day supervision, overall supervisory controls, management review of significant transactions, management review of accounts and comparison thereof to budgets, management review of the adequacy of internal control, and the internal audit function.

## 5. **ASSIGNED RESPONSIBILITIES AND DUTIES**

With the preceding objectives, limitations and elements of an internal control system in mind, the matrix listed in Table A has been prepared to establish an effective system of internal control over the treasury function.

# **TREASURY FUNCTION RESPONSIBILITIES**

Table A

<b>Function</b>	<b>Responsibilities</b>
1. Authorization of Investment transactions:	
o Formal investment policy prepared by	Treasurer
o Formal investment policy submitted to	City Council
o Investment transactions approved by	Deputy Treasurer
2. Execution of investment transactions	Revenue Manager
3. Recording of investment transactions:	
o Recording of investment transactions in Treasurer's records	Department Secretary
o Recording of investment transactions in the accounting records	Accounting Manager
4. Verification of investment, i.e., match broker confirmation to Treasurer's records	Deputy Treasurer
5. Safeguarding of assets and records	
o Maintenance of Treasurer's records	Department Secretary
o Reconciliation of Treasurer's records to accounting records	Accountant
o Reconciliation of Treasurer's records to bank statements and safekeeping records	Revenue Manager
o Review of (a) financial institution's financial condition, (b) safety, liquidity, and potential yields of investment instruments, and (c) reputation and financial condition of investment brokers	Deputy Treasurer
o Periodic reviews of collateral	Deputy Treasurer
6. Management's periodic review of the investment portfolio as prepared by the Treasurer. Areas to be reviewed are investment types, purchase price, market values, maturity dates and investment yields as well as conformance to the City's investment policy	City's Audit Firm